JENSEN INVESTMENT MANAGEMENT

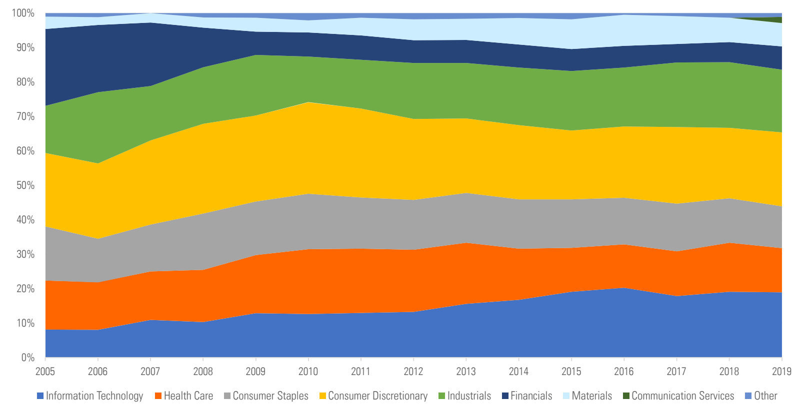
Profitability Screens Prevent Fossil Fuel and Utility Sector Inclusion

Profitability Screens and Competitive Advantage Assessment:

In order to qualify for the Jensen Quality Universe™ a business model must produce ten consecutive years of high profitability, as measured by a return on equity of 15% or greater. Companies must also demonstrate durable competitive advantages, growth in operating cash flows, and the ability to reinvest those cash flows in a meaningful way to support margins and protect market share against competitors.

In most cases, highly cyclical business models (e.g., fossil fuel companies) or regulated industries (e.g., U.S. electric utilities) are unable to sustain the high profitability levels required by Jensen to endure a full economic cycle. Just two energy companies (Exxon Mobil and Ultra Petroleum) and one utility company (Exelon) have qualified in the past. Initial research and Investment Committee review on Exxon Mobil indicated that despite strong cash flow generation, the business model had few sustainable competitive advantages given the volatility of the underlying price for its end products (oil/natural gas).

Figure 1 **Sector Breakdown in the Jensen Quality Universe.**
For illustrative purposes only. Source: Jensen Investment Management, September 30, 2020



This chart highlights the historical progression of the Jensen Quality Universe at the sector level and illustrates the lack of energy and utility sector exposure.

Why Does It Matter?

Jensen Quality Growth companies are leaders in environmental risk mitigation. Our portfolio companies play a prominent role in reducing or minimizing the amount of greenhouse gas (GHG) emissions caused by manufacturing and distribution and the amount of energy required to run their businesses.

For example, 10 portfolio companies[1] that comprise 43.57% of the portfolio, are signatories to the Paris Agreement. Further, another 13[2] companies support the Climate Disclosure Project (CDP) and/or science-based targets for scope 1 and scope 2 emissions that aim to keep global temperature increases either at or below 1.5° or below 2°C through 2030.

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[1] Alphabet (5.62% portfolio weight), Apple (4.61%), General Mills (3.65%), Johnson & Johnson (5.88%), Microsoft (6.91%), Nike (4.75%), PepsiCo (6.47%), Starbucks (2.31%) and VF Corp (2.37%), and Waste Management (1.00%) as of September 30, 2020.

[2] 3M (4.85%), Accenture (4.65%), Automatic Data Processing (2.14%), Beckon Dickinson (5.55%), Broadridge (2.24%), Intuit (3.17%), Mastercard (2.51%), Omnicom (0.47%), Pfizer (3.76%) Procter & Gamble (2.23%), Stryker (4.42%) Texas Instruments (2.01%), and TJX Companies (1.69%)

Portfolio Snapshot

		Scope 1 Direct Emissions (tCO_2e)	Scope 1 Direct Emissions (tCO_2e)	Scope 1 + 2 Emissions (tCO_2e)	Carbon Risk Rating (Sustainalytics)	Scope 1 Emissions/Revenue (USD)	Scope 2 Emissions/Revenue (USD)	Total Emissions/ Revenue (USD)
Accenture PLC*	ACN.N	18,923	214,680	233,603	Negligible Risk	0.4	5.0	5.4
Alphabet Inc	Googl.OQ	63,521	684,236	747,757	Low Risk	0.5	5.0	5.5
Amphenol Corp	APH.N	67,197	278,786	345,983	**Medium Risk**	8.2	34.0	42.2
Apple Inc	AAPL.OQ	54,590	8,730	63,320	Low Risk	0.2	0.0	0.2
Automatic Data Processing Inc	ADP.OQ	19,149	100,611	119,760	Negligible Risk	1.4	7.5	9.0
Becton Dickinson and Co	BDX.N	98,252	121,161	219,413	Low Risk	6.1	7.6	13.7
Broadridge Financial Solutions Inc	BR.N	10,287	45,242	55,529	Negligible Risk	2.3	10.3	12.6
Cognizant Technology Solutions Corp	CTSH.OQ	44,408	275,440	319,849	Negligible Risk	2.8	17.1	19.8
Equifax Inc	EFX.N	7,823	33,264	41,087	Negligible Risk	2.3	9.7	12.0
General Mills Inc	GIS.N	235,000	530,000	765,000	**Medium Risk**	13.9	31.4	45.4
Home Depot	HD.N	553,000	1,393,000	1,946,000	Low Risk	5.0	12.6	17.7
Intuit Inc	INTU.OQ	2,045	7,622	9,667	Negligible Risk	0.3	1.3	1.6
Johnson & Johnson	JNJ.N	445,054	550,480	995,534	Negligible Risk	5.5	6.7	12.2
Mastercard Inc*	MA.N	4,758	52,141	56,899	Negligible Risk	0.3	3.1	3.4
Microsoft Corp	MSFT.OQ	90,723	183,329	274,052	Negligible Risk	0.8	1.7	2.5
3M Co*	MMM.N	4,050,000	1,320,000	5,370,000	**Medium Risk**	126.2	41.1	167.3
Nike Inc*	NKE.N	46,714	209,065	255,779	Negligible Risk	1.2	5.6	6.8
Omnicom Group Inc	OMC.N	30,614	65,407	96,021	Negligible Risk	2.0	4.3	6.3
PepsiCo Inc*	PEP.OQ	3,552,415	1,425,509	4,977,924	Low Risk	52.9	21.2	74.1
Pfizer Inc*	PFE.N	735,000	765,000	1,500,000	Negligible Risk	14.2	14.8	29.0
Procter & Gamble Co	PG.N	2,210,000	1,840,000	4,050,000	Low Risk	32.6	27.2	59.8
Starbucks Corp	SBUX.OQ	319,568	282,055	601,623	Low Risk	12.9	11.4	24.3
Stryker Corp	SYK.N	27,840	70,014	97,854	Low Risk	2.0	5.1	7.2
Texas Instruments Inc*	TXN.OQ	960,000	1,060,000	2,020,000	Low Risk	66.8	73.7	140.5
TJX Companies Inc	TJX.N	109,302	558,982	668,284	Negligible Risk	2.8	14.3	17.1
United Parcel Service Inc	UPS.N	13,851,000	784,000	14,635,000	**Medium Risk**	192.5	10.9	203.4
UnitedHealth Group Inc	UNH.N	13,924	158,042	171,966	Negligible Risk	0.1	0.7	0.8
VF Corp	VFC.N	72,825	140,488	213,313	Negligible Risk	5.3	10.3	15.6
Waste Management*	WM.N	15,624,632	238,341	15,862,973	Low Risk	1,010.6	15.4	1,026.1
Portfolio Average		**1,493,744**	**461,918**	**1,955,662**	**Low Risk**	**54.2**	**14.1**	**68.3**
Portfolio Median		**72,825**	**238,341**	**319,849**	**Negligible Risk**	**2.8**	**10.3**	**13.7**
S&P500		**3,490,907**	**2,051,971**	**5,542,878**		**117.3**	**34.0**	**151.3**

Source: ISS, Company Sustainability Reports as of October 26, 2020

Portfolio Observations

According to the Sustainalytics Carbon Risk Report (as of 6/30/20), in the appendix, the Jensen Quality Growth Strategy is ranked in the low carbon risk category, with 37% less carbon risk and 73% less carbon intensity than the benchmark S&P 500 index. Furthermore, the report affirms that the portfolio includes zero fossils fuels and zero stranded assets exposure.

The Sustainalytics Carbon Risk Rating quantifies a company's exposure and management of material carbon issues in its own operations as well as its products and services. At each value chain stage, a company's vulnerability to carbon risks is assessed. This is followed by an assessment of how much of this risk is manageable as opposed to systemic and concludes with a final step of evaluating the degree to which management policies are already in place.

Only four companies in the Jensen Quality Growth Strategy are identified as medium risk[3] and they constitute 12.41% of the total portfolio at the end of the second quarter of 2020.

Carbon Risk Examples

United Parcel Service (UPS)

Although it has the highest carbon emissions profile and intensity score in the portfolio we believe that management is taking the necessary steps to minimize the growth of the company's scope 1 emissions; it has invested $1 billion in alternative vehicles, fuels, and infrastructure over the past decade. Furthermore, out of its 125,000 vehicles more than 10,300 are considered alternative fuel and advanced technology vehicles with a goal of reducing absolute GHG emissions 12% in global ground operations by 2025 (2015 baseline).

Progress has been interrupted by headwinds due to e-commerce growth, which is driving a need for an increased level of residential package deliveries, as well as growth in the total number of shipments completed. UPS has invested in operating capacity across its network to accommodate this volume growth, including network planning tools and technologies, fleet expansion and facility automation which, despite requiring more energy, help improve efficiencies. The company reiterated its commitment during the first quarter by announcing a significant investment in the U.K.-based startup Arrival, which will expand the fleet to include an additional 10,000 all-electric vehicles. Management's long-term plan is to replace substantially all ground vehicles with electrics.

UPS continues to report on GHG intensity levels, using the Transportation Intensity Index (TII)[4]. The company's goal is to reduce its overall carbon intensity level by 20 percent by 2020 (2007 baseline). This Index captures the overall efficiency of the global network by measuring GHG emissions associated with transporting packages and freight to customers during a given calendar year. As of 2019, UPS has realized an overall carbon intensity level reduction of 19 percent (composite score from its U.S. small package operation, global airline fuel, and U.S. supply chain & freight operation).

[3] Amphenol (0.66% portfolio weight), General Mills (3.65%), 3M (4.85%), and United Parcel Service (3.25%)
[4] Introduced in 2010

Apple (AAPL)

Apple has reached carbon neutrality for corporate emissions (including business travel) resulting from the use of 100 percent renewable electricity for its facilities and investing in high-quality projects that protect and restore forests, wetlands, and grasslands. The company is committed to full carbon neutrality or end-to-end footprint by 2030, inclusive of its supply chain, shipping, and devices. A key component of the company's roadmap is a new Impact Accelerator initiative to support minority-owned businesses making investments in renewable energy or carbon capture projects to help fight systemic barriers in our economy.

The company's environmental strategy is informed by comprehensive data and input from external stakeholders. Achieving these goals requires focus and innovation in three key interconnected areas: climate change, resources, and smarter chemistry. Apple plans to further reduce emissions 75% by 2030 (2015 baseline) and then invest in carbon removal solutions for the remaining emissions. For example, by making products and packaging using only recycled or renewable materials, stewarding water resources and sending zero waste to landfill while maintaining rigorous controls to ensure their products are safe for anyone who assembles, uses, or recycles them. Management scores strongly under Sustainalytics' level of involvement.

Conclusion

For US Large Cap Investors who are looking for fossil fuel free and low carbon solutions, we believe that the Jensen Quality Growth Strategy can meet that need in addition to satisfying the fiduciary standards of care for active management.

In summary, the portfolio has zero fossil fuel exposure historically, it maintains a below-average carbon footprint, and demonstrates an even lower carbon intensity[5] score versus the S&P 500 Index (as measured by Sustainalytics' Carbon Risk Report).

Definitions

Scope 1 Direct Emissions (tCO_2e)

Scope 1—Direct Emissions: This factor provides the issuer's Scope 1 Direct emissions (tCO_2e) which includes owned and controlled sources. The Direct emissions data represents the final, ISS ESG reviewed and approved value based on the ISS ESG methodology, which selects the most accurate value from available sources.

Scope 2 Indirect Emissions (tCO_2e)

Scope 2—Energy Indirect Emissions: This factor provides the issuer's Scope 2 Energy Indirect emissions (tCO_2e), which includes indirect emissions from purchased energy. The Energy Indirect Emissions data represents the final, ISS ESG reviewed and approved value based on the ISS ESG methodology, which selects the most accurate value from available sources.

Carbon Risk Rating (Sustainalytics)

The Carbon Risk Rating assesses the degree to which company value is at risk driven by the transition to a low-carbon economy. Specifically, the Carbon Risk Rating measures a company's unmanaged exposure to carbon risk. Sustainalytics offers a Carbon Risk Rating for over 4,000 companies. The rating sorts the underlying scores into five risk categories: negligible, low, medium, high, and severe. The scores are absolute, meaning that one point of risk is the same across industries and across companies.

Emissions/Revenue (USD)

Carbon intensity expressed as the issuer's total carbon emissions per million USD of revenue as a proxy of the carbon efficiency per unit of output.

tCO_2e

Metric tons (1000 kg) of carbon dioxide equivalent emissions

**CSR data: Scope 1 and Scope 2 (market based) emissions for Accenture, Mastercard, 3M, Nike, Pepsi, Pfizer, Procter & Gamble, and Texas Instruments were pulled directly from corporate sustainability reports that were released after the latest data set made available to Jensen from ISS.*

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[5] 41.2 tCO2e/Mil USD vs 153.0 tCO2e/Mil USD